

Green Mountain Care Board
89 Main Street
Montpelier, VT 05620

[phone] 802-828-2177
www.gmcboard.vermont.gov

Anya Rader Wallack, Ph.D., Chair
Alfred Gobeille
Karen Hein, MD
Con Hogan
Allan Ramsay, MD
Georgia Maheras, Executive Director

**Green Mountain Care Board
Hospital Budget Policy:
Enforcement for FY 2014 Hospital Budget Submissions**

Introduction

On February 21, 2013, the Green Mountain Care Board (GMCB) voted to adopt “Guidance and Principles Governing the Green Mountain Care Board Hospital Budget Review Process for Fiscal Years 2014 through 2016.” In that document, the GMCB indicated its plan to “develop a more robust hospital budget enforcement process to ensure compliance with our policies.”

Each year, the GMCB provides the hospitals reporting instructions to complete their yearly budget filing. The Uniform Reporting Manual Supplement (URM Supplement) accompanies the budget files and provides specific guidance and requirements as approved by the GMCB. The following will provide guidance to the hospitals about the GMCB’s expectations for hospitals to meet their approved budget.

Background

Vermont law requires that “[e]ach hospital shall operate within the budget established under this section.” 18 V.S.A. § 9456(d). GMCB Rule 3.000 governs the hospital budget review process, including the parameters the GMCB uses to assess budget performance and adjustments. See GMCB Rule 3.000, § 3.401. In addition, the State¹ has established a methodology to compare actual results to budget. The methodology is explained in the URM Supplement each year.

The GMCB found that Vermont hospitals’ aggregate budget-to-actual performance has improved since the early 2000s. Nevertheless, since FY 2008, 12 hospital budgets out of 56 submissions exceeded net revenue thresholds. Some of these budget-to-actual differences resulted from onetime events such as physician practice acquisitions or prior year Medicare settlements. However, several hospitals enjoyed greater reimbursement than forecasted. In such instances, no clear regulatory action was taken.

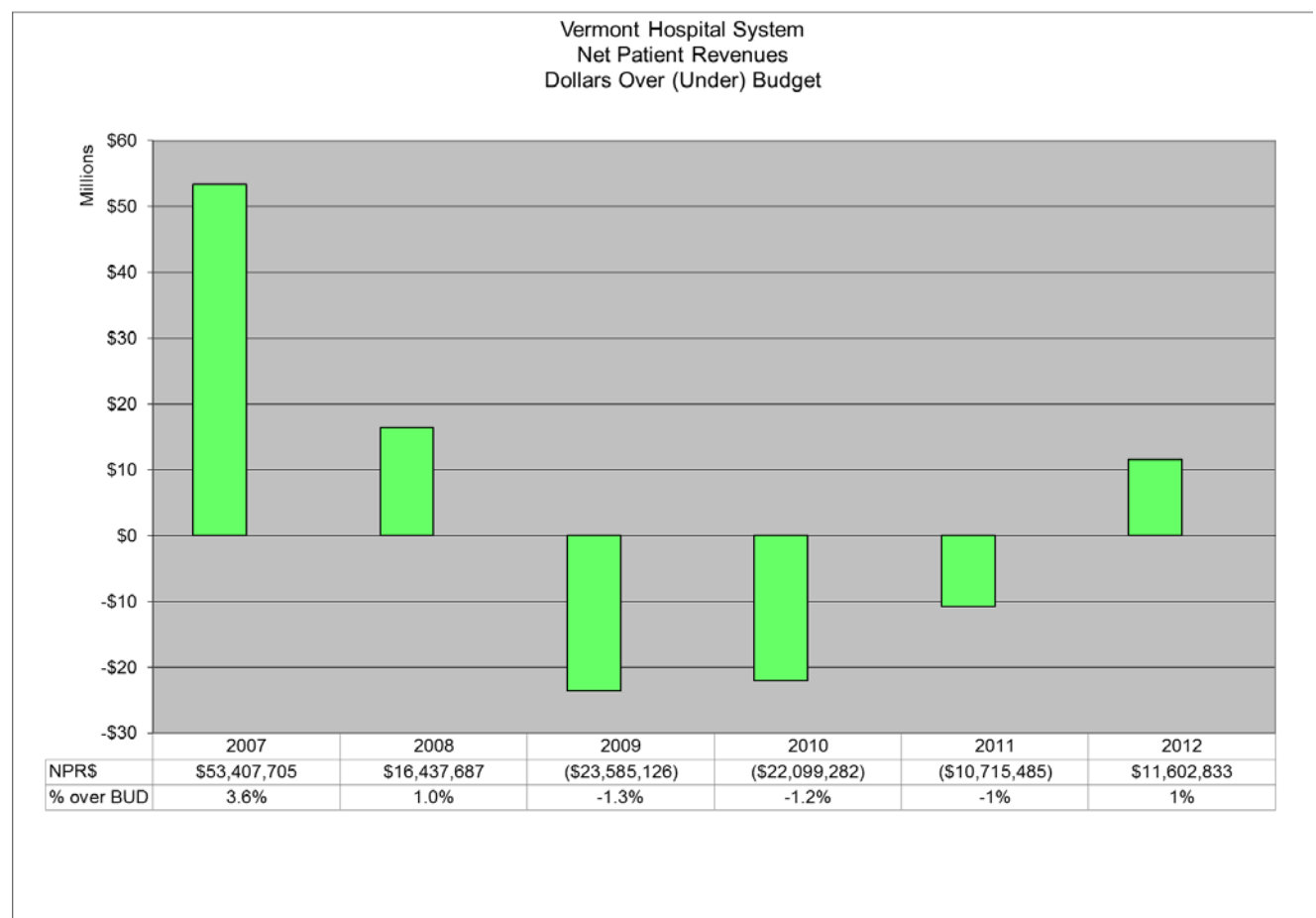
¹ For hospital fiscal years prior to 2013, the Department of Financial Regulation (formerly BISHCA) reviewed hospital budgets. Beginning with the review of FY 2013 budgets in July 2012, that task is now performed by the GMCB.



The lack of a clear enforcement mechanism for addressing variances between budget and actual performance will result in an ineffective budget process and could reward non-compliant entities. Therefore, it is the GMCB's intent to establish a budget-to-actual review that provides an adjustment mechanism to enforce budget targets.

The GMCB believes there is a need for enforcement to be transparent, understandable, and easy to administer. The GMCB will provide criteria that are clear and concise and that can be easily understood by payers, hospitals, and the general public. The process will also recognize the possible effects of reform and the potential shift of services within the hospital system.

The GMCB presently establishes a net patient revenue (NPR) target for hospital budgets. Each hospital is required to manage to that target. The budget-to-actual trend for the last several years shows how the hospital system performed.



An examination of the individual FY 2012 hospital budgets can put the budget-to-actual overages in context. From a system perspective, the hospitals were less than 1% over budget, a total of \$11.6 million. However, the individual hospital variances ranged from \$4.3 million (-5.7%) under budget to \$11.1 million (14.6%) over budget. The following chart reflects those variances by hospital.



Budget vs. actual increases		
Actual 12	Net patient revenues	
	High(lower) than Bud	
Brattleboro Memorial	\$ 2,462,250	3.9%
Central Vermont Hospital	\$ (439,010)	-0.3%
Copley Hospital	\$ 324,846	0.6%
Fletcher Allen Health Care	\$ 9,582,353	1.0%
Gifford Memorial	\$ (2,971,309)	-4.9%
Grace Cottage	\$ (2,011,365)	-11.5%
Mt. Ascutney Hospital	\$ (3,743,750)	-8.3%
North Country Hospital	\$ (4,349,720)	-5.7%
Northeast Vt. Regional	\$ (161,658)	-0.3%
Northwestern Medical Ctr	\$ 11,096,473	14.6%
Porter Hospital	\$ (548,316)	-0.9%
Rutland Regional Medical Ctr	\$ (311,685)	-0.2%
Southwestern Vt. Medical Ctr	\$ 3,101,521	2.3%
Springfield Hospital	\$ (427,795)	-0.8%
All Hospitals	\$ 11,602,835	0.6%

We estimate that this amount of increase over budget results in a 1% increase in prices across the system. In other words, the overall rates charged to patients in FY 2012 may have been overstated by that amount, or about \$11.6 million. The GMCB must review budget outliers to determine if overages result from excessive rates or onetime revenue events.

Enforcement Mechanism

The following enforcement mechanism has been adopted by the GMCB and will be used when examining the operating results of the FY 2014 budgets:

- 1) Net patient revenue (NPR) amounts as ordered will be enforced.
- 2) The GMCB will review hospitals whose year-end NPRs exceed the NPR requirement by 0.5% or come in 0.5% or more below their approved NPR. Such a review will not necessarily lead to action by the GMCB.
- 3) Budget reviews will compare each outlier to results of the total system.
- 4) Reporting requirements for the review will be determined by the GMCB.
- 5) The GMCB will afford the hospital the opportunity for a hearing, and may require a hearing if it deems one necessary.
- 6) If the GMCB determines that a hospital's performance has differed substantially from its budget, the GMCB may take actions including but not limited to (see GMCB Rule 3.000, § 3.401(c)):
 - a) Reduce or increase in a hospital's rates;
 - b) Reduce or increase net revenue and/or expenditure levels in current year budget;



- c) Use finding as a consideration to adjust the hospital's budget in a subsequent year or years; and
- d) Establish full budget review of actual operations for that year.

Effective May 2, 2013

